

Message Text

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ACTION EB-08

INFO OCT-01 NEA-10 ISO-00 SP-02 USIA-15 AID-05 NSC-05

TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00 FRB-01

INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 L-03

PA-02 PRS-01 /097 W

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 6933

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E.O. 11652: N/A

TAGS: EINV, ECON,ELAB, ETRD,IN

SUBJECT: INFORMATION TO AID USG REVIEW OF INTERNATIONAL
INVESTMENT POLICY- INDIA

REF: (A) STATE 242996, (B) STATE 185216

FOR DOC/INVESTMENT POLICY DIVISION

BEGIN SUMMARY GOI POLICIES TOWARD FOREIGN INVESTMENT ARE
INTENDED TO ADVANCE OVERALL NATIONAL OBJECTIVES OF ACHIEVING
HIGHER TECHNOLOGY, SELF-SUFFICIENCY, AND EXPORT PROMOTION.
IF INDIGENOUS TECHNOLOGY IS NOT AVAILABLE, FOREIGN INVEST-
MENT MAY BE PERMITTED FOR THAT INDUSTRY OR PRODUCT, THOUGH
GOI WOULD PREFER THAT TECHNOLOGY BE ACQUIRED BY DIRECT
PURCHASE OR LICENSING ARRANGEMENT. EXPORTS ARE ENCOURAGED
AND FOREIGN INVESTMENT IS ACCORDED MORE LIBERAL TREATMENT
IN EXPORT INDUSTRIES. FOREIGN INVESTMENT MAY ALSO BE AP-
PROVED FOR CERTAIN GOI DESIGNATED "PRIORITY" OR "CORE"
SECTOR INDUSTRIES, ALTHOUGH ONLY IF DEMESTIC COMPANIES
CANNOT MEET DEMAND AS PROJECTED BY GOI. FOREIGN EXCHANGE
REGULATION ACT (FERA), 1973 GOVERNS PERCENTAGE OF FOREIGN
EQUITY ALLOWED BASED ON ABOVE FACTORS. GOI HAS STATED
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THAT A NEW INDUSTRIAL POPCY IS TO BE ANNOUNCED BY END
OF OCTOBER. EMBASSY WILL REPORT ANY CHANGES TO INVEST-
MENT PICTURE AS CONTAINED THIS TEL IF AND WHEN NEW POLICY
IS ANNOUNCED. END SUMMARY.

1. NATIONAL OBJECTIVES FOR FOREIGN INVESTMENT:

A. EXPORT PROMOTION REMAINS AN IMPORTANT NATIONAL OBJECTIVE EVEN THOUGH GOI FOREIGN EXCHANGE RESERVES ARE AT AN ALL TIME RECORD HIGH OF DOLS 4.7 BILLION. TRADE SURPLUS IN 1976/77 WAS SMALL, AND THERE MAY BE NO TRADE SURPLUS DURING 1977/78. SOME GOI POLICY MAKERS FEEL THAT ONE OR TWO BAD MONSOONS COULD AGAIN REQUIRE HUGE IMPORTS OF FOOD GRAINS WHICH WOULD RAPIDLY DEplete FOREIGN EXCHANGE RESERVES. THUS, FOREIGN INVESTMENT IN EXPORT INDUSTRIES IS PERMITTED.

B. IMPORT SUBSTITUTION WAS A PRIORITY NATIONAL OBJECTIVE DURING 1960'S, BUT IS NO LONGER EMPHASIZED, AS POSSIBILITIES FOR IMPORT SUBSTITUTION HAVE BEEN LARGELY EXHAUSTED.

C. REDUCTION OF FOREIGN CONTROL OF INDUSTRIAL SECTOR IS ALSO IMPORTANT PART OF GOI FOREIGN INVESTMENT POLICY. SEVERAL FOREIGN COMPANIES, NOTABLY THOSE IN PETROLEUM REFINING, HAVE BEEN NATIONALIZED DURING PAST SEVERAL YEARS AND FOREIGN EXCHANGE REGULATION ACT 1973 (FERA) SETS FORTH GUIDELINES FOR PERCENTAGE OF FOREIGN EQUITY PERMITTED BY GOI (REFER TO NEW DELHI A-177 DATED SEPTEMBER 21, 1977 FOR PROVISIONS OF FERA REGARDING FOREIGN EQUITY). EXISTING COMPANIES WITH FOREIGN EQUITY AND FOREIGN BRANCHES ARE IN THE PROCESS OF REDUCING THEIR PERCENTAGE OF FOREIGN INVESTMENT TO CONFORM WITH FERA.

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2. INCENTIVES FOR INVESTMENT:
FROM THE VIEWPOINT OF THE FOREIGN INVESTOR, IT IS DOUBTFUL WHETHER THE GOI PRESENTLY PROVIDES ANY SPECIAL INCENTIVES AT ALL FOR SUCH INVESTMENT. RATHER, THE DEGREE TO WHICH RESTRICTIONS ARE ATTACHED TO FOREIGN INVESTMENT IN INDIA ARE MADE LESS ONEROUS UNDER CERTAIN CONDITIONS. THE NORMAL MAXIMUM PERCENTAGE FOR FOREIGN EQUITY IS 40 PERCENT ALTHOUGH THE GOI WILL PERMIT MORE THAN 40 PERCENT FOREIGN INVESTMENT IN PROJECTS INVOLVING ADVANCED TECHNOLOGY, PRIORITY INDUSTRIES, AND SUBSTANTIAL EXPORTS. THE GUIDELINES FOR THESE PERCENTAGES ARE SPELLED OUT IN FERA. NEW FOREIGN INVESTMENT IS NOT PERMITTED IN INDUSTRIES WHICH GOI DETERMINES DEMESTIC COMPANIES HAVE SUFFICIENT CAPACITY AND TECHNOLOGY OR CAN EXPAND THEIR CAPACITY TO MEET PROJECTED DEMAND. EXPORT INCENTIVES, IN THE FORM OF DIRECT CASH SUBSIDIES, ARE AVAILABLE FOR CERTAIN PRODUCTS. THERE IS NO DISTINCTION BETWEEN FOREIGN AND DEMESTIC COMAPNIES IN GRANTING THESE EXPORT INCENTIVES, WHICH PRESENT GOVERNMENT IS ATTEMPTING TO REDUCE.

3. PERFORMANCE REQUIREMENTS APPLY TO BOTH DEMESTIC AND FOREIGN INVESTORS. CERTAIN ESSENTIAL ITEMS ARE PROHIBITED

FROM BEING EXPORTED. IMPORT ENTITLEMENT, WHEREBY RAW MATERIALS, CERTAIN EQUIPMENT, DRAWINGS, ETC. MAY BE IMPORTED UP TO SPECIFIED LIMITS BASED ON VALUE OF COMPANY'S EXPORTS, IS APPLICABLE TO DOMESTIC AND FOREIGN COMPANIES ALIKE. AS PREVIOUSLY MENTIONED, FOREIGN OWNERSHIP IS LIMITED BY THE FOREIGN EXCHANGE REGULATIONS ACT.

4. LABOR AND EMPLOYMENT ASPECTS FOR FOREIGN INVESTORS ARE SAME AS FOR DOMESTIC INVESTORS. GOI HAS PURCHASED FOR MANY YEARS A POLICY OF INDIANIZATION OF MANAGEMENT OF FIRMS OPERATING IN INDIA. ON CASE BY CASE BASIS, TECHNICAL AND MANAGEMENT EXPERTISE MAY BE BROUGHT IN DURING START UP PHASE OF NEW PROJECTS. LABOR LAWS AND REGULATIONS IN INDIA APPLY EQUALLY TO DOMESTIC AND FOREIGN INVESTORS.
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Message Attributes

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Disposition Approved on Date:
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Disposition Comment:
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Disposition Event:
Disposition History: n/a
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Enclosure: n/a
Executive Order: N/A
Errors: N/A
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From: NEW DELHI
Handling Restrictions: n/a
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